

### Republican River Revenue Foregone

Reclamation, due to the depleted water supply in the Republican River basin has foregone revenue that would have otherwise been collected had the water supply not been depleted by groundwater pumping and other upstream junior uses in the Republican River Basin.. The revenue foregone is in two categories: a reduction in present value of capital payments received and a reduction in operation, maintenance and replacement (OM&R) payments made to Reclamation by the Irrigation Districts.

#### Present Value of Capital Payments

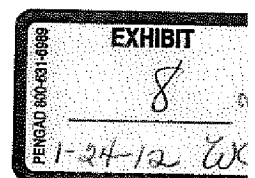
On July 25, 2000, Reclamation executed contracts with the following irrigation districts: Frenchman-Cambridge, Frenchman Valley, Kansas-Bostwick, Nebraska Bostwick, and Almena. All of the contracts except for the contract with Frenchman Valley was a repayment contract. Frenchman Valley's contract was a water service contract. In each of the contracts, a repayment schedule was provided to repay the Districts' share of the capital costs of the project. However, due to the diminishing water supply, the Districts started struggling with the financial obligations set out in the contracts. In 2003 the Districts came to Reclamation for an annual deferment of their capital payment.

The following table shows each of the Districts who had to defer payments and the year in which the payments were deferred.

Entity	Deferment Years
Almena	Never
Bostwick Irrigation District in Nebraska	2004 and 2005
Frenchman-Cambridge	2004
Frenchman Valley	2003 and 2004
Kansas-Bostwick	2004 and 2005

When a District defers the annual payment, the deferred payment is split over the remaining term of the obligation. However, the Districts' (with repayment contracts) capital obligation is divided into two components: distribution works and water supply works. The distribution works repayment obligation was scheduled to be repaid for some of the Districts beginning as early as 2009, therefore, each time a deferment was granted the Districts' remaining payments increased greatly. Each time a low water supply year occurs the Districts requested and were granted an additional deferment repeating this cycle resulting in even higher annual payments for the remaining years.

In 2006, Public Law 109-386 was passed that allowed the Secretary of the Interior to equalize the annual total repayment obligation under each of the Districts' contracts for the distribution works and water supply works over the remaining term of the water supply works. The water supply repayment obligation term was to be repaid by 2040. Therefore, the net effect of the equalization amendment was to equalize the payments to make them more affordable to the Districts. Each of the Districts is still repaying the same amount of money but the timing of the payments is several years later. As a result Reclamation is foregoing revenue from a present value standpoint. The impact to



Reclamation is a reduction in the present value of the money received equaling approximately \$1 million.

The present value calculation was based on an average inflationary factor of 2.17% calculated by using actual inflation for the years 2000-2008 (published from the Consumer Price Index for All Urban Consumers) and an estimated inflationary factor of 2.00% for the years 2009-2040. The 2.00% was from a publication from Bloomberg News, which stated that the Federal Reserve announced it is seeking to anchor expectations of inflation at 2.00%. To simplify the present value calculations, the average inflationary factor of 2.17% was used over the entire period of 2000-2040.

The \$1 million revenue foregone calculation does not include the loss in revenue from H&RW District during years they do not receive water. H&RW District had specific legislation passed in 1982 which allows them to only pay for water when they receive it. Since 2002, they have not received water. H&RW doesn't have a set payment so a present value calculation can not be calculated for this District.

#### OM&R

During the contract renewal process, it was brought to Reclamation's attention that due to the change in water supply conditions, the OM&R allocations need to be adjusted to reflect current uses pursuant to Reclamation policy. An analysis was performed for each of the reservoirs to determine the percent each District should pay for OM&R under present use conditions. Due to the increasing recreational uses and lack of water supply for the Districts the percent of the OM&R that each District is responsible to pay for OM&R on an annual basis decreased tremendously. Below is a table that shows what the Districts' allocations were compared to what they are today.

<b>Water Source</b>	<b>District</b>	<b>Previous Allocation</b>	<b>New Allocation</b>
Trenton Dam and Swanson Lake	Frenchman Cambridge	33.90%	5.00%
Red Willow Dam and Hugh Bulter Lake	Frenchman Cambridge	30.60%	2.00%
Medicine Creek Dam and Harry Strunk Lake	Frenchman Cambridge	30.20%	5.60%
Enders Dam	H&RW	21.08%	5.90%
Enders Dam	Frenchman Valley	17.56%	5.20%
Norton Dam and Keith Sebelius Lake	Almena	19.60%	1.80%
Lovewell Dam	Kansas Bostwick	31.40%	1.00%

Due to the change in these OM&R allocations, Reclamation is responsible for a much larger share of the OM&R. Based on the actual OM&R from the years 2001-2008 for each of the dams and reservoirs, Reclamation has received approximately \$5 million less

from the Districts for their share of OM&R costs than they would have received had the OM&R allocations not changed.